

STATE OF IOWA
DEPARTMENT OF COMMERCE
UTILITIES BOARD

IN RE: INTERSTATE POWER AND LIGHT COMPANY	DOCKET NOS. EAC-2011-0007 TF-2011-0129
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ORDER REGARDING CIPCO TRUE-UP COSTS

(Issued April 10, 2012)

On January 10, 2011, the Utilities Board (Board) issued its Final Decision and Order in Docket No. RPU-2010-0001, approving Interstate Power and Light Company's (IPL) request to implement a regional transmission cost recovery rider (Rider). The Rider was approved on a pilot basis. The Rider was designed to recover transmission costs billed by the Midwest Independent Transmission System Operator, Inc. (MISO), and other transmission-related costs. The Rider has cost recovery factors applicable by customer class and became effective with customer billings on February 25, 2011. IPL files monthly reports detailing transmission costs and revenues that are passed through the Rider.

On November 18, 2011, IPL filed with the Board its first-year compliance filing and reconciliation tariff (Reconciliation Filing) for its Rider. The filing is in compliance with Board orders issued January 10, 2011, and February 25, 2011, in Docket Nos. RPU-2010-0001 and TF-2011-0010. The Rider provides the adjustment mechanism that reflects the estimated transmission expenses assigned to each particular

customer class and the estimated kW or kWh impact effective January 1 of the upcoming year. The reconciliation filing includes a proposed 2012 Rider tariff (TF-2011-0129) as well as 1) the calculation of the Rider factors; 2) the reconciliation of the prior year (2011) transmission expenses and corresponding Rider revenues; 3) the estimated 2012 transmission expenses; and 4) the billing determinants. IPL made a supplemental filing on December 1, 2011, in response to a request for additional documentation for an expense number.

The Central Iowa Power Cooperative (CIPCO) investment true-up, which is an annual amount of \$205,728, is included in the reconciliation filing. IPL did not include any CIPCO true-up charges in its final compliance rates in Docket No. RPU-2010-0001, which it filed on February 25, 2011. IPL later discovered it omitted these costs and, therefore, requested that they be included in the Rider.

Because CIPCO charges were a contested issue in Docket No. RPU-2010-0001, the Board docketed IPL's Reconciliation Filing on December 9, 2011, and set a comment period. The Board's order provided that IPL shall continue Rider collections using the 2011 factors until this matter is resolved. Comments were filed by the Large Energy Group (LEG), the Consumer Advocate Division of the Department of Justice (Consumer Advocate), and IPL. IPL made two errata filings to its proposed tariff on February 9 and 10, 2012, to correct errors and to implement a change to the Standby Reservation fee for 2012 that was proposed by Consumer Advocate, which results in a two cent reduction for the Rider charge for the Standby

rate; recovery factors for other customer classes are not impacted. The sole issue remaining is the CIPCO investment transmission true up charges.

1. IPL's November 18, 2011, Filing

IPL did not include any CIPCO investment true-up charges in its monthly reports through October 2011. However, IPL included in its annual reconciliation calculations the recovery of the 2010 estimated expenses of \$205,728 associated with the CIPCO investment true-up. For the eight months of 2011 (March through October), IPL has included \$137,152 as the recovery portion of the CIPCO true-up.

In its reconciliation filing, IPL also included \$205,728 in its projected 2012 transmission expenses for the CIPCO investment true-up charge. On pages 7 and 8 of its reconciliation filing, IPL provided the following reasoning for including these charges in its projections:

The CIPCO invoices included as part of the monthly transmission expense reports reflect two separate charges, the Network Integration Transmission Service (NITS) charge and the Transmission Investment Credit/True-up charge. The Board's January 10, 2011, Order in Docket No. RPU-2010-0001 on page 138, Finding of Fact 21, approved recovery of CIPCO transmission charges. During the Docket No. RPU-2010-0001 proceeding, the level of recovery associated with the Transmission Investment Credit/True-up Charge was at issue.

Consistent with the Board's Order, and to mitigate this issue, IPL agreed not to adjust Rider RTS for changes in the CIPCO investment/true-up; however, IPL did not agree to forego recovery of the test year investment credit/true-up. On page 75 of the Board's Order, it referenced IPL's agreement in footnote 10. In

addition, the Board's Order on pages 63-66 discusses the CIPCO true-up costs. Specifically, the Board states on page 66 of the Order:

The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers. IPL's customers, although largely served by transmission formerly owned by IPL and now owned by ITC Midwest, also must use other systems such as CIPCO's to receive service, and the true-up charges paid by IPL provide benefit to IPL's electric customers.

IPL's final rates compliance filing included all of the test year estimated CIPCO expenses, including the \$205,728 associated with the investment true-up, when IPL developed the amount of transmission expenses to back out of base rates. This resulted in the investment true-up amount incorrectly being backed out of base rates. In addition, IPL has not been tracking any of investment true-up expenditures through the rider as a result of the Board's Order on page 75. However, IPL should be recovering the 2009 test year CIPCO true-up through rates, consistent with page 66 of the Board's Order, either through the rider or base rates. To remedy the issue, IPL proposes to recover \$205,728 (based upon the 2009 test year) of annual CIPCO expenses through the rider instead of redesigning all customer class base rates for the inclusion of this amount. IPL will not adjust Rider RTS for any actual monthly variances to this amount. This amount has been reflected in the projected 2012 transmission expenses.

IPL indicated it had discovered that it had not been collecting the CIPCO investment true-up costs or the MISO Schedule 10 (Admin) charges in either base rates or through the Rider. IPL proposed to begin to collect those two expenses through the Rider with amounts fixed at 2010 expense levels.

Pursuant to Board approval, IPL said it is now collecting the MISO Schedule 10 (Admin) charges through the Rider; collection of these charges was authorized in the final order in Docket No. RPU-2010-0001, but the charges were inadvertently omitted from recovery mechanisms. However, the Board has not yet authorized the recovery of the CIPCO investment true-up charges through the Rider.

2. Final Order

The recovery of any CIPCO investment was a contested issue in Docket No. RPU-2010-0001 and the decision issued on January 10, 2011 (Final Order) did not resolve the matter with certainty because arguably there is some ambiguity in the Final Order:

p. 66: The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers. IPL's customers, although largely served by transmission formerly owned by IPL and now owned by ITC Midwest, also must use other systems such as CIPCO's to receive service, and the true-up charges paid by IPL provide benefit to IPL's electric customers.

p. 75, footnote no. 10: IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider.

p. 138, Finding of Fact 21: It is reasonable to allow recovery of CIPCO transmission charges.

There appears to be a possible contradiction between the statements on pages 66 and 138 and that on page 75 of the Final Order as to whether IPL can recover CIPCO investment true-up costs through the Rider. That is, two statements indicate the costs should be recovered from customers, but the third statement notes

that IPL agreed not to include the costs in the Rider. Presumably, the intent was that the costs should be recovered in IPL's base rates, but that was not done. Now, IPL is requesting to include a base amount of \$205,728 for CIPCO investment true-up charges in the Rider. IPL has included the eight-month portion of the \$205,728 (\$137,152) for 2011 in the reconciliation for 2011 as well as including the full amount of the \$205,728 in the 2012 projected expenses, for a total requested recovery of \$342,881. IPL stated that it will not include any changes to the base amount in the Rider.

3. Parties' Comments

LEG's Comments

LEG said the Board should reject IPL's attempt to recover the CIPCO transmission investment true-up charges through the Rider in its Reconciliation filing. The \$205,728.91 CIPCO charges at issue are transmission investment true-up charges that IPL paid to CIPCO in 2009, as noted at page 66 of the Final Order. LEG said these charges were not based on CIPCO transmission service but were based on ITC Midwest transmission investments. LEG maintained that the Board in the Final Order said that these charges should be collected in base rates and not through the Rider. LEG attached to its comments portions of IPL's April Transmission Report as Exhibit B and referenced an IPL note at the bottom of the last page of Exhibit B, which states that "CIPCO transmission credit/true-up amounts have been removed per IUB [Board] order page 75." LEG concluded that IPL had

represented to the Board that it was in agreement that CIPCO transmission charges would not be included in the Rider.

LEG pointed out, however, that by July of 2011, IPL had changed its mind about including CIPCO transmission charges in the Rider. LEG quoted from IPL's July Transmission Report, Exhibit C, pages 6-7:

Both the estimated 2010 and 2011 transmission expenses included an amount for the CIPCO transmission true-up. In the 2010 estimated expenses, \$205,728 associated with the investment true-up was included with CIPCO Network Integrated Service (NITS) expenses. For 2011 estimated expenses, the CIPCO Investment True-up is reflected on line 3 of Exhibit 8a. In Docket No.RPU-2011-0001, the Board's January 10, 2011 Order on page [75] refers to IPL's agreement regarding the referenced CIPCO expenses in which the agreement was to not adjust the RTS Rider for changes in the CIPCO investment/true-up. In addition, the Board's order on pages 63-66 specifically discussed the CIPCO true-up costs.

The development of the 2011 RTS Rider rate included \$989,119 of estimated annual CIPCO expenses. IPL has not been tracking any of these expenditures through the rider, as a result of the Board's order on page 75, IPL should be, however, tracking an amount, annually, as referenced on page 66 of the Board's order, and pursuant to IPL's 2007 agreement with CIPCO, ITC Midwest and MISO. The correct amount is \$205,728 (based upon the 2009 test year) in annual CIPCO expenses and IPL should not be adjusting the RTS Rider for any actual monthly variances to this amount. (Emphasis added.)

LEG argued that both the \$205,728 and monthly variances to the \$205,728 are to be excluded from the Rider. LEG said that IPL agreed, to alleviate some

concern expressed by LEG, not to include CIPCO transmission charges in the rider and that this was a condition of the Final Order. LEG noted that IPL has provided different interpretations of the Final Order.

LEG said that IPL is now clearly asking for full recovery of the 2009 CIPCO transmission investment true-up of \$205,728 in the Reconciliation Filing despite the fact that it had previously stated these costs would not to be recovered in the Rider and were to be removed according to the Final Order. LEG pointed out that in the Reconciliation filing IPL stated that the \$205,728 was backed out of base rates in the compliance filing for final rates and to correct this IPL proposes to recover the \$205,728 through the Rider instead of redesigning all customer class base rates to include the \$205,728. LEG said IPL ignored its obligations under the Final Order when it designed its base rates and that IPL should not be allowed to recover the investment true-up charges either retroactively or prospectively.

Consumer Advocate Comments

Consumer Advocate noted that IPL included CIPCO true-up costs of \$137,152 for eight months of 2011 and \$205,729 for 2012 in its reconciliation filing. However, Consumer Advocate pointed out that in its reply brief filed in Docket No. RPU-2010-0001, IPL stated it “would not object to an RTS Rider that did not include IPL’s CIPCO transmission expenses.” (IPL Reply Brief, p. 34).

Consumer Advocate said that the Board relied on the above statement in its Final Order when it approved the proposed transmission rider on a pilot basis, noting

that “IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider.” (Final Order, p. 75). The Final Order contemplates that the CIPCO true-up costs at issue would be recovered only through base rates and not through the Rider. Consumer Advocate said that IPL’s Rider should be rejected until the \$342,881 of CIPCO costs is removed. Consumer Advocate noted that IPL is free to ask for rate relief consistent with the three-year rate freeze if it believes that its base rates are too low, but that IPL has furnished no evidence that its base rate revenue is not sufficient to cover all of its reasonably incurred costs.

IPL Reply Comments

IPL said that the Board’s Final Order included IPL’s 2009 CIPCO investment true-up of \$205,729 as part of IPL’s revenue requirement and that this amount was originally planned to be recovered through base rates. IPL cited page 66 of the Final Order, which states that “[t]he CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL’s customers.” IPL said it inadvertently omitted the 2009 CIPCO true-up costs when it calculated its compliance filing of February 25, 2011. IPL later discovered this error and said its monthly transmission expense report for June included a proposal to begin the recovery of that amount back to the date that the Rider was implemented, as well as for future monthly transmission expense report filings. IPL said that this proposal was made in lieu of base rate recovery.

IPL argued that recovering the charges through the Rider is less confusing for customers than revising base rates during the three-year rate freeze and is also more efficient to implement; the amount recovered is the same under either option. IPL said that no amount over the amount authorized for recovery will be recovered from IPL's customers.

Responding to Consumer Advocate's comments, IPL maintained that the CIPCO investment true-up costs of \$205,729 were included in IPL's approved revenue requirement and are representative of a level of test year costs. IPL cited Finding of Fact No. 21 of the Board's Final Order which stated "[i]t is reasonable to allow recovery of CIPCO transmission charges." Also, IPL cited page 66 of the Final Order, where the Board approved recovery:

The CIPCO true-up costs paid by IPL are known and measurable and are incurred in providing electric service to IPL's customers. IPL's customers, although largely served by transmission formerly owned by IPL and now owned by ITC Midwest, also must use other systems such as CIPCO's to receive service, and the true-up charges paid by IPL provide benefit to IPL's electric customers.

In response to LEG's comments, IPL disagreed that the CIPCO charges at issue are based upon ITC Midwest transmission investments. IPL pointed out that as shown on a sample CIPCO invoice on IPL's Exhibit D, there are two charges that are billed to IPL. One charge is for the Network Integrated Transmission Service and another charge is for the CIPCO Investment True-up. IPL said that all of the

ITC Midwest charges would be part of the MISO transmission invoice and would not be part of the CIPCO invoice.

IPL noted that LEG referenced page 68 of the Final Order to support its claim that the CIPCO charges at issue would only be recovered through base rates. IPL said it was not able to find any such reference on page 68 or any other page of the Final Order. IPL also argued that its pending proposal is consistent with the commitment referenced in footnote 10 on page 75 of the Final Order because IPL will not be recovering any incremental CIPCO investment true-up expenses through the Rider, but only expenses that have been approved for collection by the Board in the Final Order.

IPL said that its commitment to limit the CIPCO charges at issue to the 2009 level has already provided a benefit to IPL's customers. The 2011 year-to-date CIPCO investment true-up charges through November have totaled over \$1.2 million; these 2011 charges have been reported in the monthly transmission reports filed in Docket No. EAC-2011-0007 and the CIPCO investment true-up amounts have been separately itemized on the actual CIPCO invoices. IPL said that the benefit to customers in 2011 of this commitment was over \$1 million.

IPL has calculated the customer impact if the CIPCO investment true-up amount is included in the Rider in its Table 1 included with its reply comments. On an annual basis, IPL calculated the monthly impact for a customer would be:

Residential - \$.17, General Service - \$.47, Large General Service/Bulk - \$34.24, and Lighting – \$.43.

IPL said that LEG and Consumer Advocate are both focusing on the footnote at page 75 of the Board's Final Order and not recognizing the context of that footnote in the overall Final Order. IPL argued that a non-contextual footnote does not override the decisions that were made in the body of the Final Order and that the Final Order specifically authorized IPL to recover the 2009 CIPCO Transmission Investment True-up costs.

IPL said its commitment to LEG was meant to alleviate concern about fluctuations in the amount of CIPCO investment true-up being passed through an automatic adjustment clause on a dollar-for-dollar basis. Since the test year amount is over \$1 million less than the 2011 actuals, IPL's commitment has resulted in substantial benefit to customers. IPL said it has fulfilled its commitment but should not be expected to forego recovery of costs previously approved by the Board.

4. Board Discussion

IPL's monthly transmission reports submitted prior to the July 2011 filing included the footnote "[t]he CIPCO transmission investment credit/true-up amounts have been removed per IUB [Board] order page 75" on the page labeled Exhibit 3. IPL later discovered that it had not been collecting the CIPCO true-up charges at issue in base rates. In its July 2011 filing, IPL included the statement on pages 6 and 7 of its filing that LEG referenced in its comments. On those pages, IPL stated that it

should be collecting an annual amount of \$205,729 through the Rider. IPL further stated it should not be adjusting the Rider for any actual monthly variances to this amount. IPL proposed to begin recovering an annual amount of \$205,729 through the Rider for the CIPCO true-up expenses starting with the next month's report.

The parties disagree over the meaning of footnote number 10 on page 75 of the Final Order, which said that "IPL agreed, to alleviate some concerns expressed by LEG, not to include CIPCO transmission charges in the rider." No party asked for rehearing in the rate case docket (Docket No. RPU-2010-0001) to clarify the footnote or other provisions related to the CIPCO transmission charges.

On page 34 of its reply brief filed in Docket No. RPU-2010-0001, IPL suggested that CIPCO charges would not be included in the Rider but would be recovered through base rates. Inclusion in base rates meant that IPL agreed to recover a fixed amount based on the test year (2009) expenses. This approach was reasonable because the CIPCO charges were based on a fixed amount and riders generally are designed to recover costs that are expected to fluctuate from month-to-month; the CIPCO charges will not fluctuate because IPL agreed recovery would be capped at the test year amount.

IPL inadvertently omitted the CIPCO charges at issue from its base rates when it filed compliance tariffs in the rate case, meaning that IPL has not been recovering these costs, which were approved for recovery by the Board. IPL pointed out that the actual Transmission Investment Credit/True-up charges for 2011 have

been over \$1 million more than the \$205,729 charges at issue; IPL is keeping its commitment to base the charges on the 2009 test year and not seek to recover incremental increases. Customers have benefited from this commitment.

The Board's Final Order addresses recovery of the CIPCO charges at issue on page 66 as well as in Finding of Fact No. 21 on page 138. The discussion of the CIPCO Transmission Charges on pages 63 – 66 of the Final Order does not specify if the CIPCO charges are to be recovered under base rates or through the Rider. However, IPL's reply brief clearly indicates that the charges are not to be recovered through the Rider, which leaves only recovery through base rates. The fact that the Final Order does not discuss CIPCO charges in its Rider discussion is a further indication that the charges were to be recovered through base rates. At the same time, it is clear from Finding of Fact No. 21 that IPL was to recover the CIPCO charges included in the 2009 test year.

IPL's inadvertent exclusion of these charges through base rates in its compliance filing should not preclude recovery of Board-approved costs. At this point in time, recovery of these costs through the Rider is more efficient and less confusing to customers than recovering them through redesigned base rates. Redesigning base rates would be time-consuming and cumbersome and would not provide substantial benefits to customers, particularly when the charges on an annual basis are relatively small. IPL has kept its commitment not to recover the 2011 actual CIPCO Transmission Investment Credit/True-up charges, which are considerably

more than the CIPCO charges based on the 2009 test year. This commitment is consistent with the Final Order and explains any ambiguity that some find in the Final Order.

The Board will, however, modify IPL's request to collect the CIPCO true-up charges. IPL requested to collect the CIPCO true-up charges at issue for the period of March through October of 2011 and 12 months of 2012 in its reconciliation filing. IPL reported its error in its June 2011 monthly transmission report. IPL should bear some responsibility for the error it made when it failed to include these changes in base rates, and the Board will therefore not allow IPL to collect the CIPCO true-up charges at issue for the time period before June 2011. IPL will be allowed to collect the 2011 CIPCO true-up charges at issue beginning with the month of June 2011 and ending with the month of October 2011, which is the last month for the 2011 reconciliation time period. IPL will also be allowed to collect the CIPCO true-up charges for the 12 months of 2012. Accordingly, IPL will be required to refile its reconciliation, calculating new 2012 cost recovery factors, including 5 months of 2011 (June through October) and 12 months of 2012 for the CIPCO true-up charges at issue.

IT IS THEREFORE ORDERED:

1. Interstate Power and Light Company's proposal to recover the CIPCO investment true-up filed on November 18, 2011, Docket Nos. EAC-2011-0007 and TF-2011-0129 is approved, as modified by this order.

2. IPL shall file within 15 days of the date of this order new transmission rider cost recovery factors for 2012 consistent with this order.

UTILITIES BOARD

/s/ Elizabeth S. Jacobs

/s/ Darrell Hanson

ATTEST:

/s/ Joan Conrad
Executive Secretary

/s/ Swati A. Dandekar

Dated at Des Moines, Iowa, this 10th day of April 2012.